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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 001210

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SUBJECT: SHIPPING MINISTER HIT BY CORRUPTION ALLEGATION

Classified By: A/PolCouns Atul Keshap for reasons 1.4 (B,D)

¶1. (C) Summary: On April 28 and 30, Parliament erupted in chaos when BJP-led National Democratic Alliance (NDA) members staged a walk-out to highlight Minister for Shipping, Transport, and Highways T.R. Baalu,s alleged abuse of his position to seek favorable GOI terms for supply of natural gas to private companies owned by his sons. According to NDA leaders, even more troublesome than Baalu's unrepentant use of power for personal gain is the involvement of the Prime Minister's office, which wrote eight letters to the Petroleum and Natural Gas Ministry in support of Baalu,s interests. Baalu argues he was merely trying to resurrect the original terms, which he claims were granted in 1999 and then canceled punitively by the NDA government in 2003 when his Dravida Munetra Kazhagam party exited the NDA coalition. Whatever the facts, this scandal is bad news for the Congress-led UPA government and Prime Minister Manmohan Singh, who is now wrapped up in it even as the United Progressive Alliance (UPA) government faces increasing pressure from a political class that sees everything in election hues. Due to intervention by the Prime Minister's Office, the controversy has personally touched the Prime Minister and eroded the integrity of his upright and honest image. His muted response, failure to punish Baalu, and his link, however tenuous, to a particularly crass Baalu play to use power blatantly for personal monetary profit has sullied the Prime Minister. It shows that for the UPA, even blatant corruption is ok if it means keeping the coalition together. End Summary.

The Bare Necessities of Life

¶2. (SBU) On April 25, Minister for Shipping, Transport, and Highways T.R. Baalu delivered, to the Rajya Sabha, an unrepentant statement of his conduct for calling in favors for his family's companies. Unabashedly and with no concern for ethical conduct, he defended his actions of asking the Prime Minister to "put in a word" for his sons and the Minister for Petroleum and Natural Gas Murli Deora for a favor to avoid closure of the company. He rhetorically asked the Parliament, "What is wrong with it?"

Parliament Disrupted Over Baalu

13. (SBU) On April 28, both houses of Parliament staged a walk-out in protest against Union Minister for Shipping, Transport, and Highways T.R. Baalu, s abuse of power where he tried to use his connections to obtain subsidized natural gas allocations from the government for companies owned by his son. While Lok Sabha Speaker Somnath Chatterjee refused to allow the issue to be directly addressed in the lower house, the Opposition had its say in the Rajya Sabha (upper house). Leader of the Opposition in the Rajya Sabha Jaswant Singh, spoke harshly against Baalu and Prime Minister Manmohan Singh, whose office sent eight letters to the Petroleum and Natural Gas Ministry on Baalu, s behalf. Jaswant said promotion of a company in which a Minister or member of his family had direct interest & causes concern⁸ and is a "direct conflict of interest.⁸ He demanded a response from the Prime Minister on the involvement of his office in the affair. A day later, NDA Prime Ministerial candidate L.K. Advani, drawing on the controversy called the UPA government, "the most corrupt" in India's history.

UPA Playing Defense

14. (SBU) Feeling the heat, Congress Party Spokesperson Abhishek Singhvi told reporters on April 28 that the PMO had merely "officially" forwarded the requests made by Baalu and there was no implied endorsement of his case. When pressed by reporters on April 30, the Prime Minister replied that no

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wrongdoing had occurred and that he did not have to distance himself from anything. Also on April 30, Minister of Petroleum and Natural Gas Murli Deora attempted to provide an official government response in the Rajya Sabha. Deora read his statement amid loud protests from the opposition benches, who continued to demand the response come from the Prime Minister himself. Deora explained that in May 2005, Prime Minister Singh saw a petition from the head of one of the companies connected to the Baalu family alleging discrimination as the reason for not getting the gas allocation. The PMO reviewed the petition, but took no action. Subsequently, the Baalu company filed a petition in the Madras High Court. That court issued two conflicting judgments, and now the case is being reviewed by the Delhi High Court. Deora says that though Baalu spoke with him and wrote letters to the PMO, there has been no movement in the case as it is still with the judiciary. Further, Deora asserted that the Prime Minister's office did not issue any order or give any instructions to help the companies in question.

The Plot Thickens

15. (SBU) Clearly stung by how quickly the Baalu controversy unfolded and how damaging it promised to be to the party, senior Congress Party officials have tried in vain to fend off attacks by accusing the NDA of the original sin. They claim that it was the NDA government that provided the subsidized allocation to Baalu to begin with when his party was being courted by the NDA coalition to join their ranks. They ask whether there may not be truth to Baalu's claim that the NDA canceled the gas allocation to punish him after the DMK left the coalition.

16. (SBU) In January 1999, when the BJP-led NDA government was in power, it agreed to allocate subsidized gas to the Baalu family companies. Some journalists believe that unofficial political alliance talks had been going on between the DMK and the BJP at that time and the gas allocation was a goodwill gesture. By the end of 1999, the DMK had joined the NDA government and Baalu had become the Minister of

Environment and Forests. After the DMK pulled support from the NDA government in 2003, the NDA canceled the gas allocation in January 2004. Alleging discrimination in the allocation process, the Baalu company sent a petition to Prime Minister Singh in 2005. From 1999, the entire saga has been about the right to receive subsidized gas but none of the Baalu companies has actually received any gas.

Karunanidhi Loyalist

¶7. (SBU) Baalu is a senior leader of the Dravida Munetra Kazagham (DMK) party from Tamil Nadu and a close confidant and unflinching loyalist of Tamil Nadu Chief Minister M. Karunanidhi. He has been a Minister in various governments, including the United Front Government (1996-98) and the NDA Government (1999-2003), in addition to the current UPA government.

Comment: Bad News for Congress

¶8. (C) This controversy is badly timed and likely to be an embarrassment to the UPA (and the DMK) as it moves into four key state elections, followed by national elections next year. The PMO connection has personally touched the Prime Minister and eroded his image of honesty and integrity. His link, however tenuous, to the typically crass Baalu has sullied him. Baalu will seek cover from the Tamil Nadu Chief Minister, whose clout with the Congress leadership remains strong. Based on Karunanidhi's affinity for those who have demonstrated loyalty, it would be surprising if Karunanidhi were to hang Baalu out to dry over this scandal. But it is

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clear that Baalu is an electoral liability at this time for both the UPA and DMK and this scandal provides more fodder for the Opposition to cut into the Congress and UPA government. Most disappointing of all has been the Prime Minister's deafening silence as the affair has played out. The public is left to conclude that the UPA is guided first and only by keeping its coalition together, even in the face of blatant corruption. End Comment.

¶8. (U) This cable was jointly drafted by Consulate Chennai and Embassy New Delhi.
MULFORD